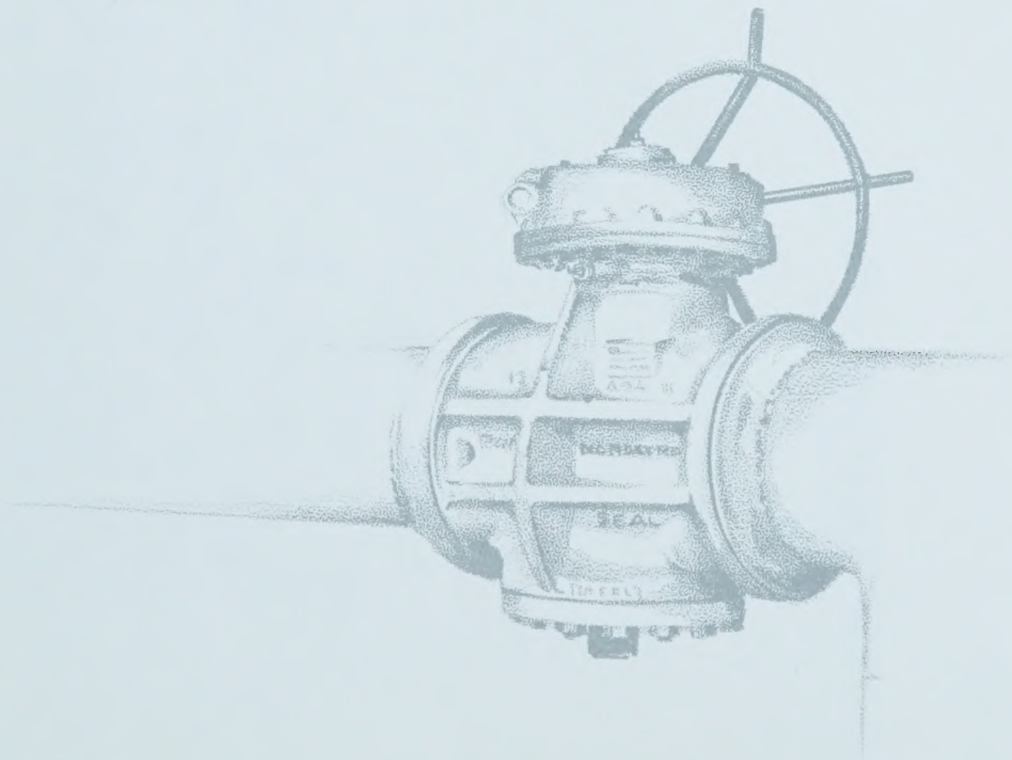


ANNUAL REPORT

1962





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STEELMAN GAS LIMITED

ANNUAL REPORT

1962

HEAD OFFICE

2236 ALBERT STREET, REGINA, SASKATCHEWAN

PRINCIPAL OFFICE

706 SEVENTH AVENUE S.W., CALGARY, ALBERTA

DIRECTORS

N. J. ALEXANDER, Winnipeg, Manitoba
D. C. COLLIN, Calgary, Alberta
C. S. DUNKLEY, Calgary, Alberta
J. P. GALLAGHER, Calgary, Alberta
M. A. MACPHERSON, Q.C., Regina, Saskatchewan
C. W. MICHEL, New York, N.Y.
D. M. WOLCOTT, Calgary, Alberta

OFFICERS

J. P. GALLAGHER, *President*
D. M. WOLCOTT, *Vice-President*
W. E. RICHARDS, *Secretary*
H. T. ASTLE, *Treasurer*

REGISTRAR AND TRANSFER AGENT

MONTREAL TRUST COMPANY
Regina, Montreal, Toronto, Winnipeg, Calgary, Vancouver

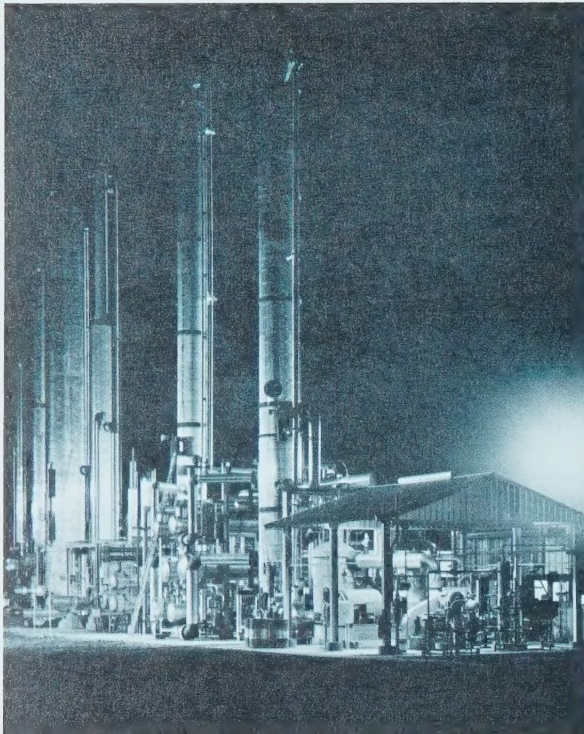
LEGAL COUNSEL

MACPHERSON, LESLIE AND TYERMAN
Regina, Saskatchewan

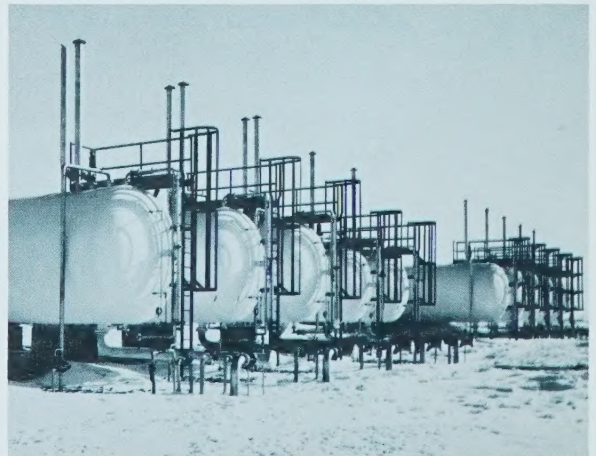
AUDITORS

CLARKSON, GORDON & Co.
Regina, Saskatchewan; Calgary, Alberta





Above: A night view of a portion of the Edmonton Liquid Gas Limited plant.



Top: A section of the main loading rack at the Edmonton plant.

Centre: One of the "Super jumbo" tank cars (capacity 25,000 Imperial gallons) used to transport propane and butane from the Edmonton plant to Thompson, Manitoba.

Bottom: Propane and butane storage tanks at the Steelman plant.

Report of the Directors

TO THE SHAREHOLDERS:

The throughput at the Company's Steelman plant increased 9.3% during the year ended September 30, 1962, to an average of 26.7 million cubic feet per day.

Gross income for the year ended September 30, 1962, increased to \$1,995,341 from \$1,705,619 in 1961. Operating profit, after direct operating, administrative and interest expenses, totalled \$595,398 compared with \$446,414 for the previous year. Net income, after all charges including depreciation and amortization, was \$94,555, compared with a net loss of \$15,893 in 1961.

For the 3 months ended December 31, 1962, throughput at the Steelman plant averaged 33.12 million cubic feet per day compared with 24.83 million cubic feet for the same period last year. Gross income for this quarter increased 33% to \$677,875 compared with the same quarter last year. Estimated net income increased 156% to \$202,000. It is anticipated that the improvement shown in the first quarter will continue for the remainder of the fiscal year.

Production and Operations

The Steelman field was unitized on July 1, 1961. Battery consolidation by the oil producers was completed in December, 1962. To take full advantage of the newly consolidated batteries, Steelman revised its gathering system so that the plant is now connected to approximately 90% of the available proven gas reserves. New compression and processing facilities were added to the plant and gathering system to handle the resulting increased volumes, bringing the rated capacity of the system up to approximately 39 million cubic feet per day. The enlarged capacity should enable the plant to average at least 33 million cubic feet per day over the next few years.

Total plant throughput for the year ended September 30, 1962, was 9.76 billion cubic feet, equivalent to a daily average throughput of 26.7 million cubic feet. This compares with a total throughput of 8.93 billion cubic feet and a daily average throughput of 24.5 million cubic feet during the previous year.

Comparative product recoveries during 1962 were as follows:

	Year Ended Sept. 30, 1962	Year Ended Sept. 30, 1961
Residue Gas (Billion cubic feet)	8.71	7.84
Propane (Million Imperial Gallons)	13.44	12.42
Normal and Iso-Butane (Million Imperial Gallons)	7.06	6.57
Natural Gasoline (Million Imperial Gallons)	4.88	4.44
Sulphur (Long tons)	1,672	1,519



Underground Storage

The company owns underground product storage facilities at Melville, Saskatchewan, with a total capacity in excess of 13 million gallons. During the past year part of these facilities were converted so that both butane and propane could be stored and handled separately.

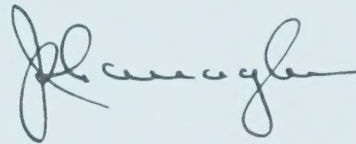
Affiliated Companies

In September, 1962, Edmonton Liquid Gas Limited completed its \$1,600,000 gas processing plant on the southern outskirts of the city of Edmonton. This plant is designed to process 70 million cubic feet of flare gas per day, which is transported to Edmonton by Northwestern Utilities Limited from the Pembina, Bonnie Glen and Wizard Lake oil fields. The propane and butane being extracted by the plant are marketed by Thompson Gas Limited, a wholly-owned subsidiary of Edmonton Liquid Gas. Thompson owns and operates a propane gas distribution system serving the town of Thompson, Manitoba, which is the location of a recent mining development by The International Nickel Company.

Steelman holds a one-third interest in Edmonton Liquid Gas Limited.

We wish to express our sincere appreciation for the effective effort of our employees and for the excellent co-operation of all the producers in the Steelman field throughout the past year.

On behalf of the Board,



President.

December 31, 1962.



Steelman Gas Limited

(Incorporated under the laws of Saskatchewan)

BALANCE SHEET

ASSETS

CURRENT:	<u>1962</u>	<u>1961</u>
Cash	\$ 9,252	\$ 57,506
Accounts and claims receivable	265,619	207,643
Due from affiliated companies	13,558	—
Inventories —		
Products in storage at minimum selling price	30,028	22,087
Parts and supplies at lower of cost or market	207,532	138,158
Prepaid expenses	45,307	57,649
	<u>\$ 571,296</u>	<u>\$ 483,043</u>
INVESTMENT IN WHOLLY-OWNED SUBSIDIARY—AT COST (Note 1)	<u>\$ —</u>	<u>\$ 271</u>
AMORTIZATION FUND FOR RETIREMENT OF FIRST MORTGAGE BONDS:		
Cash	\$ 9,902	\$ 136
Marketable securities at cost plus accrued interest (quoted market value \$1,202,123; 1961—\$763,410)	1,173,194	728,788
Amortization fund instalment due February 15, 1963— per contra	530,000	530,000
	<u>\$ 1,713,096</u>	<u>\$ 1,258,924</u>
PROPERTY, PLANT AND EQUIPMENT, at cost less accumulated depreciation (Note 2)	<u>\$ 9,487,413</u>	<u>\$ 9,190,973</u>
OTHER:		
Long term debt discount, financing and pre-production expenses less amounts written off	<u>\$ 269,495</u>	<u>\$ 329,788</u>
	<u>\$12,041,300</u>	<u>\$11,262,999</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF STEELMAN GAS LIMITED.

We have examined the balance sheet of Steelman Gas Limited as at September 30, 1962 and the statements of income and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

SEPTEMBER 30, 1962 & 1961

LIABILITIES

CURRENT:	1962	1961
Accounts payable and construction holdback	\$ 265,899	\$ 132,978
Due to affiliated company	240,017	61,517
Accrued interest on long term debt	88,688	88,238
Bank loan repayments due within one year	300,000	212,500
Amortization fund instalment due February 15, 1963— per contra	530,000	530,000
	<u>\$ 1,424,604</u>	<u>\$ 1,025,233</u>
LONG TERM DEBT (Note 3):		
6% First Mortgage Bonds due February 15, 1970 subject to amortization fund —		
Series A (U.S. \$4,000,000)	\$ 3,901,250	\$ 3,901,250
Series B	1,505,000	1,630,000
6% Debentures Series A due May 15, 1973 subject to sinking fund	2,000,000	2,000,000
Bank loan (exclusive of \$300,000 included in current liabilities; 1961—\$212,500)	621,875	212,500
	<u>\$ 8,028,125</u>	<u>\$ 7,743,750</u>
SHAREHOLDERS' EQUITY (Notes 4 and 5):		
Capital —		
Authorized—3,000,000 common shares of \$1 par value each		
Issued —1,100,000 shares	\$ 1,100,000	\$ 1,100,000
Paid-in surplus	1,650,000	1,650,000
Deficit	(161,429)	(255,984)
	<u>\$ 2,588,571</u>	<u>\$ 2,494,016</u>
COMMITMENTS (Note 7)		
On behalf of the Board:		
J. P. GALLAGHER, <i>Director</i>	\$12,041,300	\$11,262,999
D. M. WOLCOTT, <i>Director</i>		

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the company, the accompanying balance sheet and statements of income and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Steelman Gas Limited as at September 30, 1962 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In our opinion all the transactions of the company that have come to our notice have been within the objects and powers of the company.

Calgary, Alberta.

December 21, 1962.

CLARKSON, GORDON & Co.,
Chartered Accountants.

Statement of Income

years ended September 30, 1962 and 1961

INCOME:	1962	1961
Production of residue gas and products, less producers' share	\$1,903,751	\$1,664,379
Miscellaneous	91,590	41,240
	<u>\$1,995,341</u>	<u>\$1,705,619</u>
EXPENSES:		
Operating, general and administrative (including compressor rentals of \$73,332 in 1962)	\$ 875,753	\$ 757,960
Interest on long term debt	524,190	501,245
	<u>\$1,399,943</u>	<u>\$1,259,205</u>
Operating profit before depreciation and amortization	<u>\$ 595,398</u>	<u>\$ 446,414</u>
DEDUCT:		
Depreciation	\$ 444,600	\$ 405,334
Amortization of long term debt discount, financing and preproduction expenses	56,243	56,973
	<u>\$ 500,843</u>	<u>\$ 462,307</u>
Net income (loss) for the year (Note 6)	<u>\$ 94,555</u>	<u>\$ (15,893)</u>

Statement of Deficit

years ended September 30, 1962 and 1961

	1962	1961
Balance at beginning of year	\$255,984	\$240,091
Net income (loss) for the year	94,555	(15,893)
Balance at end of year	<u>\$161,429</u>	<u>\$255,984</u>

Notes to Financial Statements September 30, 1962

1. WHOLLY-OWNED SUBSIDIARY.

During the year the company sold its controlling interest in Edmonton Liquid Gas Limited (formerly Steelman Gas (Alberta) Limited).

2. PROPERTY, PLANT AND EQUIPMENT.

The company's investment in property, plant and equipment is summarized below:

	September 30, 1962	September 30, 1961
Land	\$ 33,574	\$ 33,574
Plant, gathering system and underground storage facilities	10,788,501	10,233,101
Other equipment	50,413	50,413
	<u>\$10,872,488</u>	<u>\$10,317,088</u>
Less accumulated depreciation	1,385,075	1,126,115
	<u>\$ 9,487,413</u>	<u>\$ 9,190,973</u>

3. LONG TERM DEBT.

The 6% Series A First Mortgage Bonds payable in United States funds (\$4,000,000) are recorded in the accompanying balance sheet in Canadian funds based on the exchange rate which prevailed at the time the liability was incurred. Based on the exchange rate in effect at September 30, 1962 the amount of Canadian funds required to discharge this indebtedness would have been approximately \$390,000 more than the amount at which this liability is included in the balance sheet, which difference may increase or decrease depending upon the exchange rates prevailing during the remaining eight year term of the bond issue.

The 6% First Mortgage Bonds are secured by a first fixed and specific mortgage and a first floating charge on the company's property and undertaking.

The 6% Debentures are secured by a second floating charge on the undertaking, property and all other assets of the company. On August 15 in each of the years 1963 to 1970, if earnings of the preceding year, as defined in the indenture, are sufficient, the company is required to pay into a sinking fund for the retirement of the 6% Debentures Series A. No payment is required to be made in 1963.

The company's bank loan is partially secured by an assignment of accounts receivable. While the loan is evidenced by a demand note, the bank has indicated it will accept repayment in annual instalments of \$300,000.

4. CAPITAL.

Stock Purchase Warrants are outstanding entitling the holders thereof to purchase 180,000 shares of the company's capital stock at a price of \$2.50 per share until September 30, 1965 and at varying rates thereafter until September 30, 1970.

5. DIVIDENDS, ETC.

The trust deed and the indenture securing the 6% First Mortgage Bonds and 6% Debentures respectively contain various provisions and restrictions affecting, inter alia, the payment of cash dividends, the redemption or purchase of capital stock, the issue of additional bonds and debentures and the making of investments in, or loans to, other companies.

6. INCOME TAXES.

No income taxes appear to be payable on the year's net income as a result of the carry-forward for tax purposes of a prior year's loss.

7. COMMITMENTS.

The company has leased, with an option to purchase, certain compressor equipment requiring rental payments of \$20,000 quarterly to August 1, 1964 and \$41,650 quarterly from November 1, 1964 to August 1, 1969.

